MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2021/2022

PEM0034 – ESSENTIALS OF MACROECONOMICS

(Foundation in Management)

3rd OCTOBER 2022
2.30 p.m. - 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **NINE (9) pages** excluding cover page with Section A and Section B.

2. Answer **ALL** questions in **Sections A and B**.

3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS [40 MARKS]

Instructions: Answer **ALL** questions in this section. Shade the answers on the OMR sheet.

1. Gross Domestic Product (GDP) is the total market value of all _____.
   A. final goods and services produced annually within a country's borders
   B. final and intermediate goods and services produced annually within a country's borders
   C. intermediate goods and services produced annually within a country's borders
   D. final goods and services produced every month within a country's borders

2. When aggregate expenditure equals aggregate output, the economy is experiencing _____.
   A. a budget deficit
   B. a budget surplus
   C. a deflationary gap
   D. national income equilibrium

3. Suppose that inventories were RM40 billion in 2000 and RM50 billion in 2001. In 2001, accountants would _____.
   A. add RM10 billion to other elements of investment in calculating total investment
   B. subtract RM10 billion from other elements of investments in calculating total investment
   C. add RM45 billion (= RM90/2) to other elements of investment in calculating total investment
   D. subtract RM45 billion (= RM90/2) from other elements of investment in calculating total investment

4. The term "real GDP" refers to _____.
   A. the value of the domestic output after adjustments have been made for environmental pollution and changes in the distribution of income.
   B. GDP data that embody no changes in either the price level or physical output.
   C. GDP data that reflect changes in both physical output and the price level.
   D. GDP data that have been adjusted for changes in the price level.

5. Which of the following best defines national income?
   A. income received by households less personal taxes
   B. the before-tax income received by households
   C. all incomes earned by Malaysian resource suppliers for their current contributions to production
   D. the market value of the annual output net of consumption of fixed capital.

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6. "Economic growth" has occurred if the _____.
   A. inflation rate between this year and last year is zero or less.
   B. GDP this year exceeds the Real GDP this year.
   C. unemployment rate this year is below the natural rate of unemployment.
   D. Real GDP or per-capita Real GDP this year exceeds those of last year.

7. Autonomous consumption is _____.
   A. the change in consumption that results as a person's (or nation's) income increases or decreases.
   B. that portion of total consumption that is dependent upon the level of income.
   C. the steady increase in the consumption of goods and services that automatically occurs as a person grows from a child to an adult.
   D. that portion of total consumption that is independent of the level of income.

8. If income rises from RM1,000 to RM1,300 and consumption rises from RM900 to RM1,160, the marginal propensity to consume is _____.
   A. 0.87
   B. 0.80
   C. 0.30
   D. 0.13

9. The multiplier process following a drop in autonomous spending is _____.
   A. just as powerful as for a rise in autonomous spending
   B. more powerful than for a rise in autonomous spending
   C. less powerful than for a rise in autonomous spending
   D. nonexistent, because the multiplier applies only to a rise in autonomous spending

10. Which of the following equations most simply represents GDP in a closed economy?
   A. $Y = C + I + G + NX$
   B. $S = I - G$
   C. $I = Y - C + G$
   D. $Y = C + I + G$

11. Expansionary fiscal policy actions include _____ government spending and/or _____ taxes, while contractionary fiscal policy actions include _____ government spending and/or _____ taxes.
   A. increasing; increasing; decreasing; decreasing
   B. decreasing; decreasing; increasing; increasing
   C. increasing; decreasing; increasing; decreasing
   D. increasing; decreasing; decreasing; increasing

Continued...

12. M1 is comprised of currency held outside banks + _____.
    A. credit cards
    B. saving deposits
    C. gold
    D. checkable deposits

13. Bank A has checkable deposits of RM10,000, cash reserves of RM4,000 and loans of RM6,000. The required reserve ratio is 12.5 percent. The bank has excess reserves of _____.
    A. RM1,250
    B. RM8,750
    C. RM4,000
    D. RM2,750

14. If Bank Negara Malaysia (BNM) were to increase the legal reserve ratio, we would expect _____.
    A. lower interest rates, higher aggregate demand, and an expanded GDP
    B. lower interest rates, lower aggregate demand, and an expanded GDP
    C. higher interest rates, lower aggregate demand, and a contracted GDP
    D. higher interest rates, higher aggregate demand, and a contracted GDP

15. BNM wants to increase the money supply through an open market operation, it will _____.
    A. purchase government securities
    B. sell government securities
    C. first purchase, then sell, government securities
    D. lend more reserves to commercial banks

16. People will want to hold less money if the price level _____.
    A. or the interest rate increases
    B. or the interest rate decreases
    C. increases or the interest rate decreases
    D. decreases or the interest rate increases

17. If households in the economy decide to take money out of demand deposits and hold it as currency, this will _____.
    A. decrease M1 and decrease M2
    B. not change M1 and increase M2
    C. decrease M1 and not change M2
    D. not change either M1 or M2

Continued...

18. The base year is the year _____.
    A. in which prices are unstable
    B. in which prices are lowest
    C. in which prices are highest
    D. that serves as a reference point or benchmark

19. Economists all agree that _____.
    A. neither high inflation nor moderate inflation is very costly
    B. both high and moderate inflation are quite costly
    C. high inflation is costly, but disagree about the costs of moderate inflation
    D. moderate inflation is as costly as high inflation

20. The CPI was 117.6 in one year and 121.3 the following year. Approximately how much did prices rise between the two years?
    A. 3.7 percent
    B. 3.15 percent
    C. 0.03 percent
    D. 1.03 percent

21. Inflation initiated by increases in wages or other resource prices is labelled _____.
    A. demand-pull inflation
    B. demand-push inflation
    C. cost-push inflation
    D. profit-push inflation

22. In the quantity theory of money, the letter "V" stands for _____.
    A. variance
    B. validity
    C. volume
    D. velocity

23. Who is hurt by inflation?
    A. Flexible-income earners
    B. Property owners
    C. Savers
    D. Debtors/ borrowers

24. Persons who are retired or engaged in own-home housework are considered to be in which of the following categories?
    A. in the civilian labour force
    B. not in the labour force
    C. employed
    D. unemployed

Continued...

25. "Full employment" is said to exist when the unemployment rate equals _____.
A. zero
B. the cyclical unemployment rate
C. the structural unemployment rate
D. the natural unemployment rate

26. The unemployment due to changes in the types of skills employers require is called _____ unemployment.
A. structural
B. cyclical
C. natural
D. frictional

27. John was being treated unfairly by his boss, so he stormed off and quit his job. Two days later, he found another job. For these two days, John experienced _____.
A. cyclical unemployment
B. structural unemployment
C. being out of the labour force
D. frictional unemployment

28. The Philips curve relates the inflation rate to the _____.
A. GDP
B. interest rate
C. unemployment rate
D. discount rate

29. Bruce works as a lifeguard every summer. He will return to college as a full-time student when the summer is ended. Bruce is considered _____ after the summer ends.
A. cyclically unemployed
B. structurally unemployed
C. not in the labour force
D. frictionally unemployed

30. Which of the following is NOT an advantage of international trade?
A. Higher efficiency due to competition.
B. Greater market for local products.
C. Insufficiency and lack of resources to produce product.
D. Higher standard of living in the country.

Continued...

31. Absolute advantage is found by comparing different producers' _____.
    A. opportunity costs.
    B. payments to land, labour, and capital.
    C. input requirements per unit of output.
    D. locational and logistical circumstances.

32. Karen and David are both capable of repairing cars and cooking meals. Which of the following scenarios is **NOT** possible?
    A. Karen has a comparative advantage in repairing cars and David has a comparative advantage in cooking meals.
    B. Karen has an absolute advantage in repairing cars and David has an absolute advantage in cooking meals.
    C. Karen has a comparative advantage in repairing cars and in cooking meals.
    D. Karen has an absolute advantage in repairing cars and in cooking meals.

33. Suppose Country A has a comparative advantage over other countries in producing computers, but other countries have an absolute advantage over Country A in producing computers. If trade in computers is allowed, Country A _____.
    A. will import computers
    B. will export computers
    C. will either export computers or export computers, but it is not clear from the given information
    D. would have nothing to gain either from exporting or importing computers

34. A tariff on a product makes _____.
    A. domestic sellers better off and domestic buyers worse off
    B. domestic sellers worse off and domestic buyers worse off
    C. domestic sellers better off and domestic buyers better off
    D. domestic sellers worse off and domestic buyers better off

35. A quota is _____.
    A. a tax placed on imports
    B. a limit on the quantity of imports
    C. a tax on exports to other countries
    D. an excess of exports over imports

36. The balance of payments contains information, regarding _____.
    A. purchases of Malaysia's financial assets by foreigners
    B. purchases of foreign financial assets by Malaysian citizens
    C. the levels of Malaysia's exports and imports
    D. All of the above.

Continued...

37. When a Malaysia company buys RM5 million worth of Italian cheese, the value of that transaction is recorded in the _____.
   A. current account
   B. capital account
   C. transfer account
   D investment account

38. If Malaysians buy American computers, they _____.
   A. demand U.S. dollars and supply Ringgit Malaysia
   B. demand U.S. dollars and demand Ringgit Malaysia
   C. supply U.S. dollars and demand Ringgit Malaysia
   D supply both U.S. dollars and Ringgit Malaysia

39. If the dollar price per pound moves from \$1.90 = £1 to \$1.40 = £1, the pound is said to have _____ and the dollar to have _____.
   A. depreciated; appreciated
   B. appreciated; appreciated
   C. appreciated; depreciated
   D. depreciated; depreciated

40. The U.S. dollar has appreciated relative to the French franc if it takes _____.
   A. fewer francs to buy a dollar
   B. fewer dollars to buy a franc
   C. more dollars to buy a franc
   D. None of the above.

SECTION B: STRUCTURED QUESTIONS (60 MARKS)

Instructions: Answer **ALL** questions in this section. Write your answers in the answer booklet provided.

Question 1

a) Describe any **FOUR (4)** functions of Bank Negara Malaysia. (8 marks)

b) Suppose Bank Negara Malaysia prints RM10,000 in new paper money and gives it to David. David takes the newly created money and deposits in the ABC bank. If the reserve requirement is 8%:

   i. Find the size of the bank's required reserves. (2 marks)

   ii. Find the excess reserve of the bank. (2 marks)

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iii. Find the value of the simple deposit multiplier. (2 marks)

iv. Find the total money supply that can be expanded. (2 marks)

c) Although commercial banks have the power to create credit, their powers are not unlimited. Describe any **TWO (2)** limitations of credit creation process. (4 marks)

[Total: 20 marks]

Question 2

a) Answer the following questions based on **Table 1**.

Table 1

Item	Weightage	Prices (RM)	
		2015	*2020*
Housing	4	550	1000
Transport	2	250	200
Food	5	120	150
Healthcare	1	250	400

i. Assume that 2015 is the base year, measure the weighted price index for each item in year 2020. (8 marks)

ii, Find the overall weighted consumer price index in year 2020. (2 marks)

iii. Find the rate of inflation or deflation between the two years. (1 mark)

b) Describe how Bank Negara Malaysia uses the **THREE (3)** monetary tools to overcome the demand-pull inflation. (6 marks)

c) Describe the difference between structural and cyclical unemployment. (3 marks)

[Total: 20 marks]

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Question 3

a) **Table 2** below shows the production patterns of smartphones and television sets (TV) for country X and Y without an international trade. Both countries have equal allocation of resources between smartphone and TV productions.

Table 2

Country	Smartphone	TV
Country X	800	200
Country Y	1200	600

i. Find which country has an absolute advantage in producing smartphones and television sets respectively. (2 marks)

ii. Explain which country has a comparative advantage in the production of smartphones and television sets respectively. (4 marks)

iii. If the countries start trading with each other, find which country will specialise and export smartphones and television sets respectively. (2 marks)

b) Countries continue to impose restrictions to the trading activities in international trade although international trade has advantages to the world economy. Discuss any **TWO (2)** reasons for protectionism. (4 marks)

c) Distinguish between fixed and flexible exchange rate systems. (4 marks)

d) Distinguish between the current account balance and the merchandise trade balance? (4 marks)

[Total: 20 marks]

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